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RUEHKM/AMEMBASSY KAMPALA 2265
RUEHNR/AMEMBASSY NAIROBI 4696
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1355
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 04 HARARE 000549

SENSITIVE
SIPDIS

AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBBINS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: N/A
TAGS: EMIN EINV PGOV ASEC ZI
SUBJECT: CHAMBER OF MINES CALLS FOR FAVORABLE, CONSISTENT
POLICIES

REF: A. HARARE 459

¶B. HARARE 416
¶C. 07 HARARE 998

SUMMARY

¶1. (SBU) The Chamber of Mines of Zimbabwe presented an overview of the state of the sector at its Annual General Meeting (AGM) on May 30, 2008. The mining sector is Zimbabwe's largest foreign exchange generator. It earned the country US$1 billion in 2007 and contributed about 6 percent to GDP. Production of most minerals, however, is in steady decline due to an unfriendly investment environment characterized by distorted pricing, retention of foreign exchange earnings by the Government of Zimbabwe (GOZ), shortages of foreign exchange, electric power and skilled labor, plus lack of policy clarity on foreign investment in the sector. While the latest shifts in monetary policy provided some reprieve, before foreign currency flows back into the sector investors need confidence that favorable policies are here to stay and that more reforms will be forthcoming. Under the present political and economic environment we are pessimistic that this will be the case, and concerned that the GOZ could target foreign-owned mineral assets for seizure in line with the election rhetoric of "100 percent empowerment, 100 percent control." END SUMMARY.

Mining) Zimbabwe's Largest Forex Generator

¶2. (U) At the May 30 Annual General Meeting of the Chamber of Mines of Zimbabwe in Victoria Falls, attended by econoff, outgoing Chamber president Jack Murewa outlined the state of Zimbabwe's largest foreign exchange generator * the mining sector. Mines and Mining Development Minister Amos Midzi noted in his address that mining earned the country US$860 million in 2007, in addition to US$153 million from gold that was sold directly to the Reserve Bank of Zimbabwe. Mining contributes about 6 percent to GDP, up from about 4.5 percent in the 1990s, and it directly employees 32,000 people, down from 46,000 in the mid-1990s. The GOZ's Export Directory of Zimbabwe 2008 states that minerals and metals contribute 20 percent of Zimbabwe's exports while the mining sector is the source of more than 30 percent of all foreign currency inflow.

But Unfriendly Operating Environment

¶3. (SBU) Very few mining investments are underway in Zimbabwe, aside from the development of a new nickel mine and investments in the platinum industry, which enjoys unique and favorable operating conditions (Ref A). Murewa recited a litany of constraints that explained the lack of investment in the past year:

-- An overvalued Zimbabwe dollar that prevented companies from realizing the full value of high prevailing international commodity prices and that discouraged investment;

¶4. (U) Murewa acknowledged several favorable developments for the sector announced by RBZ Governor Gono in his April 30, 2008 Monetary Policy Statement (Ref B):

-- the replacement of the gold support price with a price closer to the real value of the precious metal;
-- allowing the 35 percent of foreign exchange earnings surrendered to the RBZ to be exchanged at the new inter-bank exchange rate;
-- moving Foreign Currency Accounts back to commercial banks from the RBZ, which should make the funds more accessible.

He also commended Zimbabwe's stable and investor-friendly fiscal policies. On the downside, however, Gono had reduced the retention period for earned foreign exchange from indefinite to 21 days; Murewa maintained the industry needed a 120 day hold on its forex earnings. Gono also had failed to clarify how or when the RBZ would pay the foreign exchange component of gold deliveries.

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Production at Lowest Levels Since Independence
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¶5. (SBU) Against these constraints, production of most minerals was at its lowest level last year since independence. From 2001 to 2007, among the six largest mineral foreign exchange earners for Zimbabwe in order of value:

-- Gold production fell from 18,049 kg to 7,017 kg;
-- Chrome fell from 780,150 tons to 614,558 tons and high carbon ferrochrome fell from 243,534 tons to 187,327 tons, both due to their high dependence on the country,s deteriorating electric power supplies, skills flight, and high requirements for imported inputs;
-- Nickel production held steady (8,144 tons in 2001 and 8,581 tons in 2007) but Chamber of Mines economist David Matyanga explained to us that production by the country's leading nickel company--Bindura Nickel Corporation (BNC)--had, in fact, steadily declined, only to be offset by "the platinum factor," i.e. nickel production as a by-product of platinum mining;
-- Platinum production climbed from a start-up of 519 kg in

2001 to 5,085 kg; and

-- Coal production halved from 4,064,497 tons to 2,080,221 tons.

A Chamber of Mines spreadsheet of Zimbabwe's mineral production from 2001 through March 2008 is available on the Mission Harare SIPRNet under "Special Reports."

The Special Case of Gold

¶6. (SBU) Murewa defended gold mining companies against persistent government allegations of "leakage" (i.e. theft by the producers), noting that although four government agencies and one private company were now policing the sector, production still had not increased. Privately, he said it was impossible to conceal the additional amount of earth that would have to be moved to produce the quantity of gold allegedly being smuggled. Price distortions were the root cause of decline, not theft.

¶7. (SBU) Until the reforms contained in the last Monetary Policy Statement, gold output, based on Jan-March production figures, appeared likely to fall to about 4 tons in 2008 (the country's installed annual gold production capacity is 30 tons). Minister Midzi maintained at the AGM that production had already responded positively to the new policies, but Peter Dell, Finance Director of Canadian-owned Caledonia Mining, which operates the Blanket gold mine, countered to econoff that it would take six months for his large mine to reverse the downward production trend. Murewa cautioned against expecting immediate growth in the industry, as investment decisions needed 1-3 years to yield results. In addition, the industry needed confidence that the reforms were here to stay after years of frequently shifting monetary policy.

¶8. (U) Murewa commended companies for staying in business in the face of up to six months payment arrears from the RBZ, and he lauded the deal brokered by the industry with the Zimbabwe Electricity Supply Authority (ZESA) to pay for power in forex (Ref C). He emphasized the industry's strong record of stepping up to the plate, in the face of a vacuum on government's part, in infrastructure development plus health and education services, over and above all taxes and royalties paid. In closing, and in passing the Chamber presidency over to David Murangari, MD of Bindura Nickel Corporation, he underlined that the mining industry stood ready to marshal its own resources without burdening the fiscus, if given a favorable operating environment.

COMMENT

¶9. (SBU) We are pessimistic in the present political environment and under escalating hyperinflation that the GOZ will introduce further monetary policy reforms, or even stick with the recent partial liberalization of the foreign exchange market, which, if continued, would be a much needed shot in the arm for the mining sector. Nor are the prospects good for investor-friendly implementation of the Indigenization and Economic Empowerment Act. Alarmingly, election campaign rhetoric has centered around "100 percent

empowerment, 100 percent control," which bodes ill for the development of Zimbabwe's crown asset--its mines and mineral resources, a significant amount of which is still foreign-owned. END COMMENT.